HIGHLIGHTS OF THE 2015/16 BUDGET STATEMENT

Introduction

- The 2015/16 budget does not have budgetary support from our development partners. The AfDB has, however, taken a decision to disburse budgetary support during the 2014/15FY. The EU and the World Bank may also resume budgetary support to Malawi during the 2015/16FY and should that happen, the resources will be used to procure additional vehicles for the Malawi Police Service.
- However, while budgetary support is dwindling, development partners are now providing more off-budget support. It is important, therefore, that the analysis of the budget should take into account this structural change.

Performance of the FY2014/15 Budget

- The revised 2014/15budget of K800.7 billion is expected to hold to the end of the financial year. The projected revenues and grants are expected to be higher than the revised amount by K42.3 billion to K683.3 billion. This is mainly on account of a substantially large amount of RBM dividend received in the year.
- The major pressure points for the budget included Wages and Salaries which increased from K163 billion to K198 billion due to recruitment of 10,500 primary school teachers and 500 secondary school teachers, and the salary increase demands in the public service. In addition, interest payments on debt rose from K80.4 billion to K105.9 billion mainly as a result of an increase in the domestic debt stock.
- The overall deficit for the 2014/15 budget of K117.4 billion is projected to be higher than was budgeted by K10.3 billion,

representing 3.8 percent of GDP. This is, however,lower than the 2013/14 deficit which was at 6.2 percent of GDP.

- Government arrears as at 30th June 2014, stood at approximately K155.0 billion to be settled through zero-coupon promissory notes which has already started. The 2014/15 budget had an allocation of K10 billion for settlement of arrears. The 2015/16 budget has an allocation of K50 billion for settlement of the maturing promissory notes.

Recent Economic Developments

- The positive growth registered by the economy, was disturbed by the weather-related set-backs of floods and dry-spells which have negatively impacted the agriculture sector. However, the economy should rebound towards the end of the 2015/16 fiscal year, all things being equal.
- Inflation decelerated from 24.2 percent in November 2014 to 18.3 percent in April 2015, largely due to the strengthening of the Kwacha, supported by declining fuel prices. Subsequently, annual average inflation is expected to fall to 16.5 percent in 2015 compared to 23.8 percent in 2014.
- The Government will continue to implement a flexible exchange rate regime with the Reserve Bank of Malawi only coming in to intervene in the foreign exchange market only when it has become necessary to ensure orderly market conditions.

The 2015/16 Draft Budget

a) Assumptions of the Budget

- The budget assumptions are; i) that inflation will decline to 16.4 percent, and ii)that interest rates will fall.

b) The Key Features of the 2015/16 Draft Budget

- The key features of the 2015/16 budget are; i) no budgetary support, ii) Lower revenues and grants due to a decrease in donor grants. Iii) An increase in tax and non-tax revenues from K581.0 billion in 2014/15FY, to K592.4 billion in 2015/16FY due to mainly enhanced tax administration.
- At 26.2 percent of GDP, the projected expenditure and net lending of K901.6 billion for 2015/16, will be lower than that of 2014/15FY which was at 28.4 percent of GDP, although in money terms, the figure was lower at K800.7 billion.
- The Government will spend K8 billion for maize purchases during this year and K13 billion will be spent during the 2015/16FY on maize which will benefit all Malawians.
- The recurrent budget will be at K674.6 billion while the development budget will amount to K224.0 billion in 2015/16FY.
- The 2015/16 budget also includes a net lending figure of K3 billion to capitalize the Higher Education Students Loan and Grant Fund. In view of this, the payment of allowances to new students in public universities will be abolished.
- Statutory expenditure is pegged at K424.3 billion, representing 47 percent of the total expenditure and net lending budget of K902 billion.
- The overall deficit for the 2015/16FY is projected at 4.0 percent of GDP which is slightly lower than that of 2014/15FY which was at 4.2 percent of GDP. At the same time, domestic borrowing is projected at K25.0 billion, or 0.7 percent of GDP, Domestic debt stock will, therefore, reduce further from 15.9 percent to 14.5 percent of GDP in 2015/16FY.

Topical Programmes in 2015/16FY

- During the 2015/16FY, the Government will implement a number of priority programmes and these are; i) the Farm Inputs Subsidy Programme which will be allocated K41.5 billion,

ii) Migration to the National Pension Scheme, whereby those public officers who are below 50 years old will migrate to the new Pension Scheme, and MK51.5 billion has been allocated; iii) A Youth Employment and Empowerment which is aimed at creating youth employment and capacity building for the youth in the country, iv) The Greenbelt Initiative and Job Creation, v) The Promotion of Legume Production where an allocation of K1 billion has been provided in the 2015/16 budget to promote legumes production, vi) The Flood Emergency Recovery Programme to address the effects of the flood disaster that occurred in some parts of the country. The Government has already secured K36 billion from the World Bank and part of this money will be used to purchase maize for the silos and rehabilitate roads and bridges, irrigation and other public infrastructure.

- vii)The Public Sector and Public Finance Management Reforms, viii) Establishment of the National Planning Commission, and ix) Development Financing that will result in the creation of a financial institution that will finance development projects in the country. In addition, the Malawi Enterprise Development Fund (MEDF) will also be reviewed with a view of transforming it into an agricultural financial institution that will provide credit to poor and medium sized farmers in the country.

Tax Policy and Administrative Measures for the 2015/16 Budget

- The Budget Statement has announced a number of Tax Policy and Administrative Measures that will become effective from midnight of 22nd May 2015 and these relate toCustoms and Excise Duty.
- There will also be amendments to the relevant tax legislations to further strengthen tax administration and these amendments shall take effect on 1st July 2015 after Parliamentary approval.